ECONOMIC COMMENTARY

Capital Investment in Alberta is Anticipated to Decline in 2015

July 21, 2015

Highlights:

Capital investment has been the largest contributor to Alberta's economic growth since the mid-nineties. In 2014, total investment grew by an estimated 0.4% to $92.1 billion with a decrease in the transportation sector being offset by growth in other sectors such as manufacturing and healthcare. For 2015, capital investment is expected to become a drag on economic growth as energy investment declines.

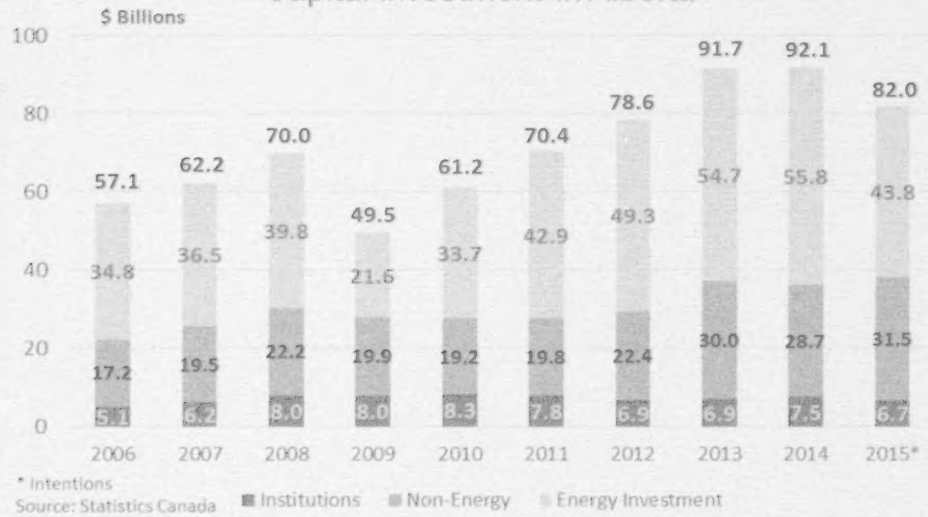
Alberta
Government

Of the three largest components of Alberta's Gross Domestic Product (GDP) – household consumption, international exports and gross fixed capital formation (or capital investment) – investment has had the largest impact on Alberta's economic performance since the mid-nineties. Whereas in the 1980s and early 1990s international exports drove the Alberta economy, between 1996 and 2008, capital investment accounted for 70% of Alberta's overall GDP growth, and it was also by far the largest contributor to the decline in Alberta's GDP in 2009 and its subsequent recovery. Capital investment continued to have a major impact in the 2010-2013 period accounting for 71% of Alberta's total GDP growth.

Statistics Canada has recently released preliminary capital investment estimates for 2014 and investment intentions for 2015, based on its new Capital and Repair Expenditures Survey. Investment includes capital spending on both construction and machinery and equipment reported by private and public organizations.

The latest survey has been redesigned to be part of the Integrated Business Statistics Program[1], so unlike in previous years housing investment is no longer included resulting in major downward revisions to the overall estimates.

Chart 1
Capital Investment in Alberta



In 2014, capital investment in Alberta was only up 0.4% to $92.1 billion from 2013 while the year-over-year increase rate in 2013 was 16.6%. Construction spending which accounted for 75.9% of the total dropped 1.4%, while machinery and equipment spending rose 6.7%. Following a 19% increase in 2013, private investment was down 0.6% to $82.4 billion. Public investment was up 9.7% to $9.6 billion.

[1] The Integrated Business Statistics Program encompassing around 60 surveys covering manufacturing, wholesale and retail trade, services and capital expenditures was launched by Statistics Canada in 2010 to provide a more efficient model for producing economic statistics.

The sectors with the highest investment growth in 2014 were

- Health care and social assistance (up 102.3%),
- Professional, scientific and technical services (up 72.8%),
- Manufacturing (up 22.5%), and
- Wholesale trade (up 18.9%).

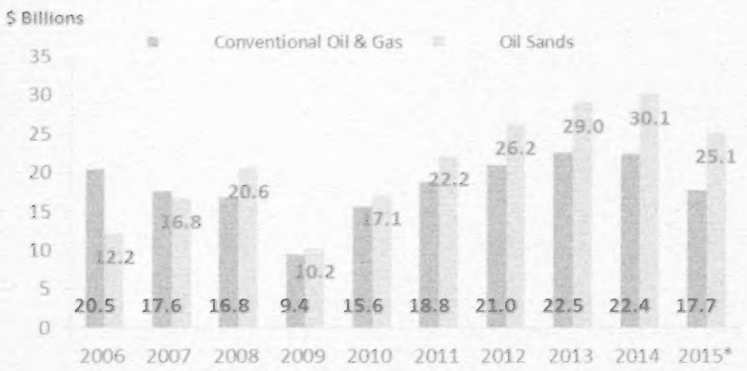
Declines reported by transportation and warehousing (down $2.2 billion), utilities (down $425 million), and retail trade (down $351 million) nearly offset the growths in the other reporting sectors.

The energy sector is an important contributor to capital investment in Alberta. The sector's investment was estimated to increase by 2.0% to $55.8 billion from 2013, accounting for 60.7% of the total. Oil and gas prices have a significant impact on capital investments in this sector and others.

During Alberta's first investment boom, which lasted from 1996 to 2008, the value of capital investment spending quadrupled. Oil and gas prices rose strongly over that period which led to surging investment in the energy sector, especially in the oil sands. Oil sands investment was also impacted by technological breakthroughs, such as the Steam-Assisted Gravity Drainage process. The wealth effects of higher energy prices also spilled over onto other sectors, such as residential housing, transportation (especially pipelines) and public institutions (especially provincial government, education and healthcare).

During the global recession, total investment spending fell by 29.2%, and oil and gas investment by 47.4% as many previously announced large projects were put on hold. However, investment has bounced back strongly since then and by 2014 investment spending had reached new highs, with oil and gas investment more than doubling since 2009. In 2014, oil sands investment was estimated to rise 3.7% to $30.1 billion, while conventional oil and gas investment fell 0.5% to $22.4 billion. The oil and gas sector's share of total investment was 57% in 2014.

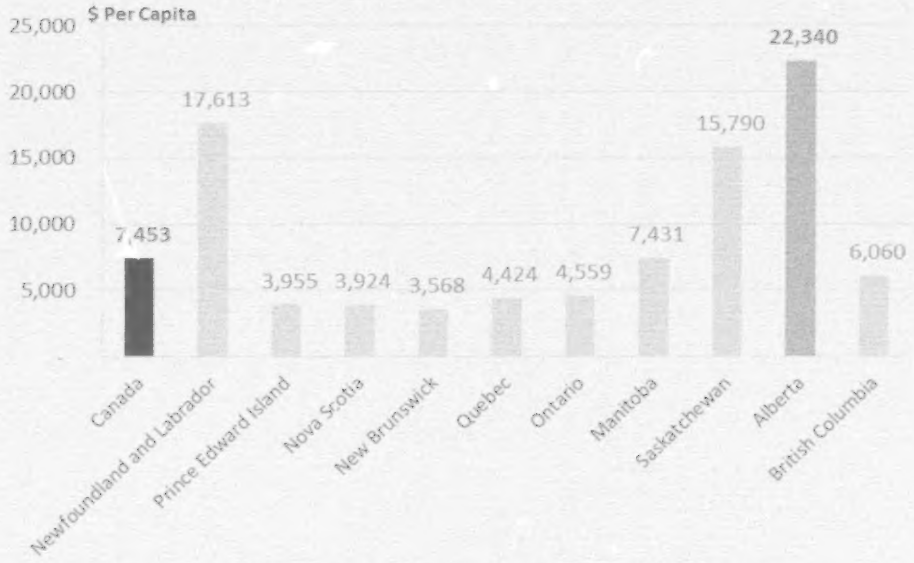
Chart 2
Oil & Gas Capital Investment in Alberta



* Intentions
Source: Statistics Canada

In 2014, Alberta continued to lead all provinces accounting for 34.8% of total capital investment in Canada. As a result, Alberta's per capita capital spending was again the highest of all provinces at $22,340, triple the Canadian average of $7,453 per capita, and 26.8% higher than the number two province, Newfoundland and Labrador.

Chart 3
Per Capita Investment in 2014



Sources: Statistics Canada and Alberta Innovation and Advanced Education

In 2015, due to weak oil prices and suspension of projects in the oil and gas extraction industry, capital spending in Alberta is anticipated to drop significantly by 11.0% or $10.1 billion from 2014 levels to $82.0 billion with construction spending down 9.0% and machinery and equipment spending down 17.0%. Private investment is expected to decline by 11.3% and public investment may be down by 8.1%.

Capital expenditure by conventional oil and gas is expected to drop by 21.4% to a five-year low of $17.7 billion and expenditure by oil sands is expected to decline by 16.6% to a four-year low of $25.1 billion. Investment by organizations providing support services to mining and oil and gas extraction industries is anticipated to drop by 69.5% to $1.0 billion.

Other sectors that expect significant decrease in capital spending include provincial government (down 53.1%), health care and social assistance (down 35.5%), and professional, scientific and technical services (down 29.1%).

Sectors which anticipate large growth in 2015 are education (up 26.2%), manufacturing (up 24.3%), retail trade (up 20.4%), transportation and warehousing (up 19.9%), and real estate and rental and leasing (up 15.3%).

In summary, Alberta continues to lead the country in per capita investment spending as the number one province for investment attraction. Capital investment has been the largest driver of the Alberta economy since the mid-nineties, and investment growth in turn has been largely driven by rapidly rising oil sands investment. However, the growth of capital investment is estimated to slow down in 2014 and a sharp decrease is anticipated in 2015 due to the negative effect of weak oil prices.